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C O N F I D E N T I A L SECTION 01 OF 04 BRASILIA 001345

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SUBJECT: SCENESETTER FOR THE VISIT OF ADM. STAVRIDIS TO BRAZIL

Classified By: DCM Lisa Kubiske. Reason: 1.5 (d)

¶1. SUMMARY. Your visit comes at an important time for our strategic partnership with Brazil. Overall, the U.S.-Brazil relationship is as productive as it has ever been, driven by strong cooperation between Presidents Bush and Lula, particularly in the area of biofuels. As Brazil completes its new defense strategy, it will be making key decisions, notably on the purchase of new fighter aircraft, that will affect the nature of our relationship for years to come. While some Brazilian leaders still find it politically convenient to portray the U.S. as a potential adversary, most of the Brazilian military is well apprised of the potential benefits of partnership. Your visit provides an opportunity to advance our partnership in key areas by highlighting the importance of our common interests and the opportunities to advance cooperation in mutually beneficial areas. END SUMMARY.

¶2. The relationship between the United States and Brazil is as productive and broad-based as it has ever been, the result of the excellent relationship between President Bush and President Luiz Inacio Lula da Silva, new cooperation mechanisms on biofuels, business issues, and economic matters, and our shared goals of fostering hemispheric stability, promoting democracy, developing a consensus on next steps regarding climate change, and achieving a mutually satisfactory conclusion to the Doha round of WTO negotiations. U.S.-Brazil cooperation on foreign policy issues is often limited by the GOB's unwillingness to speak out against anti-democratic actions in the hemisphere (Venezuela and Cuba), take key steps to address key issues such as nuclear proliferation and counterterrorist concerns, and expand its international leadership in meaningful ways. Operational cooperation on law enforcement issues, such as counternarcotics, container security, and intelligence sharing, are highlights of the bilateral relationship. Brazil's ethanol program has made it a global model for alternative energy and offers potential for bilateral cooperation on an important strategic issue.

¶3. (SBU) With approval ratings hovering near 80 percent, President Lula is more popular than at any other point since he took office in 2003. Continuity and legacy are the guiding lights of Lula's second term. Lula continues to shape his legacy as a friend of the poor and builder of a foundation for prosperity for the lower and middle classes through broad social welfare programs and a vast, new economic growth program of public works and growth incentives. At the same time, Lula has failed to promote needed reforms to abolish a political culture of corruption, clientelism, and spoils.

¶4. (U) Despite a healthy economy and a slight drop in

homicides registered over the past several years, public opinion polls consistently show that the top concerns for Brazilians continue to remain public security and lack of jobs. These are normally followed by quality of health care and education, corruption, low wages, and lack of opportunities for youth. These will likely remain issues heading into the 2010 presidential elections. Although Lula has gotten high marks for economic management, particularly as other countries in the region struggle, economic fears are growing among Brazilians, and the effects of the global financial crisis may eventually have a negative impact on Brazil that affects Lula's popularity and the chances of his party's candidate for 2010.

¶ 15. (U) Brazil is the tenth largest economy in the world. Annual GDP growth was 5.4% for 2007, and inflation approximately 4%. The currency, the real, has appreciated strongly over the past two years, although it has seen an erosion of its strength in recent months as the global financial crisis unfolds. While the export sector has been dampened, the strong currency (Strong until the current global financial crisis) permitted Brazilian companies to ramp up investment in capital equipment. High tax rates and over regulation continue to retard economic growth, but the economy remains generally strong.

¶ 16. (SBU) The United States and Brazil share the basic goals of fostering hemispheric stability, promoting democracy, preventing terrorist and drug transit activity, supporting international non-proliferation regimes, and have been working together to try to achieve a mutually satisfactory

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conclusion to the Doha round of WTO negotiations. U.S.-Brazil cooperation is often limited by the GOB's unwillingness to take action regarding threats to democracy in specific countries and to support aggressive action in multilateral forums on such issues as non-proliferation, human rights, and democracy. Many Brazilian leaders also take a cautious approach to relations with the United States, sometimes falling back on shopworn Latin American leftist rhetoric about excessive U.S. influence. Brazil maintains an active dialogue with Venezuela and Cuba, has worked hard to restore relations with Bolivia, and has stood firmly on the principle of respect for sovereignty in responding to the dispute between Colombia and Ecuador, preferring to work through the Organization of American States. The attainment of a permanent seat on the UN Security Council has been a central goal of Brazil's foreign policy.

¶ 17. (SBU) The Brazilian public has a mixed view of the United States. Seventy-five percent say relations between Brazil and the United States are very good or fairly good, and Brazilians by a wide margin consider the United States the most important country in the region for Brazil. Those who follow the news know that U.S.-Brazil cooperation on trade issues has global importance and new areas of cooperation such as biofuels are potentially significant. There has been a much more positive view of U.S.-Brazil cooperation since the signing of the biofuels MOU last year. On the other hand, there is a good deal of skepticism about U.S. foreign policy, particularly on issues such as Iraq and Cuba. U.S.-Brazil cooperation in law enforcement has been productive and is a highlight of the bilateral relationship.

¶ 18. (U) Brazilians have a high degree of interest in events in the U.S. The Presidential election has generated almost as much press coverage here as Brazil's local elections. When asked for your views on the election and its outcome, you can emphasize the similarity in approach to key foreign policy issues and the continuity of the fundamental interests -- regional stability, promotion of democracy -- that Brazil shares with the United States.

SECURITY ISSUES

¶9. (C) At President Lula's direction, Brazil is now completing a new defense strategy document to set an overall course on security issues. While not yet published (due to interagency disagreements on several points), it is widely reported that the strategy will have three main elements: modernization of the armed forces, revitalization of defense industries and implementation of a new regime of national service. We expect that an important result of the new strategy will be an increase in funding devoted to national defense, which has been under-resourced since the end of the military government over twenty years ago. The resurgence of importance of the Brazilian military presents a unique opportunity to increase our bilateral cooperation and defense partnership. Several issues will be key in determining the degree to which we will succeed in enhancing our partnership.

¶10. (C) The first potential watershed in achieving a more robust defense relationship with Brazil will be the decision on a next generation fighter aircraft. Boeing's F18 Super Hornet is a finalist along with the French Rafale and Swedish Gripen. A decision will be made in March 2009, with a final contract award in October of next year. It would be difficult to overstate the significance of Brazil's Air Force committing to a U.S. aircraft as its primary fighter for the next generation. Boeing's proposal combines cutting edge technology with a strong package of industrial cooperation. While the Super Hornet is clearly Brazil's best option both because of its capabilities and the advantages that interoperability with the U.S. military will bring, it is currently perceived as an underdog in the competition. This is because of an effective disinformation campaign from a few members of the Brazilian press with an anti-U.S. agenda that has led most Brazilian decision makers to believe that the United States will not transfer superior military technology to Brazil. Several Cold War era denials of military items (e.g. Harpoon missiles) and recent headaches with commercial exporters of military items (Honeywell gyros) seem to reinforce this perception. We want to use the opportunity of your visit to drive home the point that the United States is offering the best product, the best prospects for long term cooperation and support and is

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committed to transfer of the applicable technologies.

¶11. (SBU) There are a number of areas with prospects for immediate cooperation. Brazil is considering stationing police and navy officers at JIATF South. The Brazilian military has participated in several major exercises, including UNITAS and PANAMEX with several more in prospect. Brazil has invited U.S. personnel to train at its jungle warfare school in Manaus, however, the high demands on U.S. special forces have prevented acceptance. The Brazilian navy has shown interest in vessels for coastal patrol and in improving their maritime situational awareness capabilities. Your visit provides an opening for exploring further prospects for such activities.

¶12. (C) We are in the process of pursuing information sharing agreements with Brazilian services -- potentially leading to a GSOIA. Progress has been slow because of bureaucratic concerns, but Brazil is interested in continuing. We should take the opportunity of your visit to underline the importance of information sharing and its benefits for both sides.

¶13. (C) We have been stalled on our Defense Cooperation Agreement (DCA) for almost a year because of the Ministry for External Affairs, failure to take action and the MOD's unwillingness to burn political capital to push this. While this situation is unlikely to change, we should remind the Brazilians that the DCA is important for future partnership, especially as it can shorten the process of approval for various future cooperative activities. Brazil has signed a large number of similar agreements this year, so ours will

not be a precedent and could be seen in the context of normal friendly mil-mil relations.

¶14. (SBU) The April announcement of the reactivation of the Fourth Fleet caught Brazil by surprise and provoked much negative commentary. Even some normally rational Brazilians believe that the announcement, coming as it did almost simultaneously with the discovery of more oil off the Brazilian coast, could not have been a coincidence but was somehow mysteriously related to the security of Brazil's oil. While Brazilian military leaders have said they understand the reasons for the Fourth Fleet's standup, President Lula has recently stated again that it poses some threat to Brazil. While Lula's statement was pure domestic politics and his advisors have assured us that he understands the true nature and purpose of the Fourth Fleet, we need to continue to remind Brazilian leaders that spreading such inaccuracies is counter productive in terms of the cooperative relationship we are trying to build. While the Fourth Fleet controversy seemed to have died down, senior Brazilians have recently raised it again, expressing concern that the reactivation could somehow threaten Brazil's assertion of its Exclusive Economic Zone.

¶15. (SBU) In a similar vein, discoveries of oil off Brazil's coast have been cited as justifications for increasing Brazil's navy. While the oil finds will almost certainly increase Brazil's future prosperity, we should seek to turn the strategic dialogue in Brazil away from fantasies that another country--potentially the United States--would try to seize the oil fields to a productive discussion of energy security and the importance of maintaining freedom of the seas.

¶16. (C) You will be visiting Manaus as the Brazilian Army looks for a way to implement a recent Presidential Decree to station troops in Brazil's far flung indigenous regions as a means to provide better control of Brazil's vast borders. The Army lacks the resources to do so effectively, and Lula's instruction is seen as a response to Army criticism that local autonomy of indigenous areas is a threat to Brazilian sovereignty. Behind this concern is a long-standing fear among Brazilians that the sparsely populated Amazon region could be seized by foreign forces. Brazil's more sensationalist press routinely covers statements from environmentalists on preserving the rainforest as though they were calls for invasion (presumably by the United States). In any public statements, you will need to be aware that Brazilians will evaluate your words in the context of what they believe is a real concern that the United States could be planning to take control of the Amazon, or assist an internationalization. You should look for opportunities to reaffirm that the U.S. supports

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Brazilian sovereignty unconditionally.
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